

Message Text

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ACTION NEA-10

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FM AMEMBASSY DAMASCUS
TO SECSTATE WASHDC 7453
INFO AMEMBASSY ABU DHABI
AMCONSUL ALEXANDRIA
AMEMBASSY ALGIERS
AMEMBASSY AMMAN
AMEMBASSY BAGHDAD
AMEMBASSY BEIRUT
AMEMBASSY CAIRO
AMEMBASSY DOHA
AMCONSUL JERUSALEM
AMEMBASSY JIDDA
AMEMBASSY MANAMA
AMEMBASSY RABAT
AMEMBASSY SANA

C O N F I D E N T I A L SECTION 1 OF 2 DAMASCUS 1819

E.O. 11652: GDS
TAGS: EGEN, PFOR, SY, XX
SUBJECT: ECONOMIC ASPECTS OF PEACE: INCENTIVES FOR SYRIA

REF: PHILLIP STODDARD LETTER TO AMB. MURPHY 2/14/78

1. SUMMARY: THE BENEFITS OF PEACE IN THE MIDDLE EAST, FOR SYRIA
AT LEAST, SHOULD BE CONSIDERED IN THREE CATEGORIES:
THE BENEFITS OF DEMOBILIZATION, THE IMPROVEMENT IN
POSSIBILITIES OF FOREIGN INVESTMENT AND TOURISM, AND A
GENERAL IMPROVEMENT IN THE POLITICAL ATMOSPHERE LEADING
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TO POLITICAL AND ECONOMIC LIBERALIZATION. WE SHOULD
EXAMINE EACH OF THE CATEGORIES IN TURN; CONSIDERING THE
PROBABILITY THAT THESE DEVELOPMENTS WILL HAPPEN AND
WHAT ELSE MAY HAPPEN THAT COULD REINFORCE OR DETRACT
FROM THE POSITIVE EFFECT OF THESE POSSIBILITIES. OUR
CONCLUSION IS THAT THE ECONOMIC DISINCENTIVES MAY
POSSIBLY OUTWEIGH THE ECONOMIC INCENTIVES FOR PEACE IN

THE SHORT TERM. HOWEVER, MOST SYRIANS PERCEIVE PEACE AS OF GREAT BENEFIT WITHOUT EXAMINING THE CONSEQUENCES. END SUMMARY.

2. DEMOBILIZATION BENEFITS - PROBABILITY: THIS IS HIGHLY UNLIKELY. PEACE WOULD BE FOLLOWED BY A REORIENTATION OF THE SYRIAN ARMY TOWARDS IRAQ AND TURKEY. THE PROBLEMS WITH IRAQ ARE WELL KNOWN. THE PROBLEMS WITH TURKEY INCLUDE SYRIAN IRRENDENTISM TOWARDS THE SANJAKS OF ALEXANDRETTA AND ANTIOCH, DISPUTES OVER EUPHRATES WATER AND A POSSIBLE SPILL-OVER OF SYRIAN SUPPORTED KURDISH INSURRECTIONS IN IRAQ.

3. BUDGET SAVINGS: SYRIA'S PRESENT ARMED FORCES ARE IN THE VICINITY OF 250-300,000 MEN (ALL SERVICES) AND CONSUME AT LEAST DOLS 1.4 BILLION OF SYRIA'S BUDGET. IF ARMED FORCES WERE NEEDED ONLY FOR INTERNAL ORDER (I.E., TO KEEP THE MILITARY AND ALAWITES IN POWER), THEY COULD PROBABLY BE REDUCED TO A CAREER CADRE OF 30-40,000 MEN. A STRAIGHT LINE DROP IN THE BUDGET IS PROBABLY MISLEADING BUT ANNUAL BUDGETS MIGHT TOTAL ABOUT DOLS 200 MILLION. PRESENTLY SYRIAN ARMS PURCHASES ARE FINANCED ALMOST ENTIRELY BY GENEROUS CREDITS FROM THE USSR, I.E., PAID PARTIALLY IN KIND AND PARTIALLY IN CASH. EVEN IF SYRIA DEMOBILIZED TO AN ANNUAL BUDGET LEVEL OF DOLS 200 MILLION, THESE PAYMENTS WOULD CONTINUE AT LEAST

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THROUGH THE MID-1980S. ARAB AID WOULD PROBABLY NOT CONTINUE AT THE SAME LEVEL AS AT PRESENT AND THE AMOUNT OF UNTIED FOREIGN EXCHANGE AVAILABLE FOR PAYING THE CASH PORTION OF THE PURCHASES WOULD PROBABLY DROP SIGNIFICANTLY. THE USSR WOULD NOT PROVIDE GENEROUS AID TERMS TO ARM SYRIA AGAINST IRAQ (A CASH CUSTOMER) NOR AGAINST TURKEY (WHERE SOVIET FOREIGN POLICY HAS OTHER FISH TO FRY) AT ANYWHERE NEAR THEIR PRESENT LEVELS. SIMILARLY, THE GULF ARABS MAY CONTINUE TO SEE SYRIA AS A VALUABLE COUNTERWEIGHT AGAINST IRAQ BUT, EXCEPT POSSIBLY FOR KUWAIT, NONE WOULD HAVE THE SAME COMPELLING REASONS AS THEY NOW DO TO FINANCE MILITARY PREPARATIONS AGAINST ISRAEL. IF SYRIA FELT THE NEED TO MAINTAIN ARMS PURCHASES AT ANY SUBSTANTIAL LEVEL, THERE WOULD CERTAINLY BE A NET NEGATIVE EFFECT ON FOREIGN EXCHANGE FLOWS.

4. MANPOWER BENEFITS: THE RELEASE OF 100,000 MEN OR MORE INTO A VERY CONSTRAINED LABOR MARKET WOULD BE UNRESERVEDLY BENEFICIAL. THERE ARE SEVERE SHORTAGES OF AGRICULTURAL LABOR AND SKILLED LABOR THAT COULD ONLY BENEFIT BY RELEASING MORE MEN INTO THE LABOR

FORCE. THE SAVINGS IN ARMY SALARIES COULD AND PROBABLY WOULD BE USED TO RAISE PUBLIC SECTOR SALARIES, ALTHOUGH THIS WOULD BE OFFSET IN PART BY THE NEED TO RAISE SALARIES OF THOSE REMAINING IN THE SERVICES.

5. FOREIGN INVESTMENT: THE PRINCIPAL OBSTACLES TO FOREIGN INVESTMENT IN SYRIA ARE (A) LACK OF CONFIDENCE FELT BY THE SYRIAN PRIVATE SECTOR, (B) LACK OF ANY GOVERNMENT POLICY TO ENCOURAGE INVESTMENT, AND (C) AN UNRESPONSIVE BUREAUCRACY WHO STILL SEES IT AS ITS DUTY TO ENCOURAGE THE SPREAD OF STATE INTERVENTION IN THE ECONOMY AND WHICH REGARDS THE PRIVATE SECTOR AS THE ENEMY. WITHOUT BASIC CHANGES IN THESE FIELDS, FOREIGN INVESTMENT IN SYRIA WILL NOT INCREASE WHETHER OR NOT THERE IS PEACE.
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WITH BASIC CHANGES, THE BASIC ECONOMIC CONDITIONS ARE SO INVITING THAT WE WOULD EXPECT SUBSTANTIAL IMPROVEMENTS WITH OR WITHOUT PEACE.

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6. TOURISM: MUCH OF WHAT AILS FOREIGN INVESTMENT
POSSIBILITIES IN SYRIA AILS TOURISM AS WELL. THE BULK
OF SYRIA'S TOURISM AT PRESENT IS THE HAJ TRAFOEK. THE
REST OF PRE-1975 TOURISM WAS A SPINOFF FROM BEIRUT.
SHOULD THE COMING OF PEACE RESTORE TOURISM TO BEIRUT,
DAMASCUS COULD EXPECT TO BENEFIT IN PROPORTION. HOWEVER,
SYRIA BY DEFAULT DISCOURAGES (A) SAUDI AND GULF TOURISM --
THROUGH LACK OF FACILITIES, HIGH COSTS, AND A BUREAURACY

AT BORDERS THAT WOULD SCARE ANYONE AWAY, AND (B)
WESTERN TOURISM THROUGH FAILURE TO DO ANY TOURIST
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PROMOTION WHATSOEVER. THIS INCLUDES PROMOTION AMONG
A READY-MADE TOURIST MARKET SUCH AS ETHNIC SYRIANS IN
THE AMERICAS. THIS TOURISM COULD BE ENCOURAGED AND
WOULD PROSPER EVEN IN THE ABSENCE OF PEACE IF JORDAN,
EGYPT, LEBANON AND ISRAEL ARE ANY INDICATION.

7. GENERAL LIBERALIZATION: THERE IS A GENERAL FEELING
IN SYRIA THAT PEACE WOULD FORCE A LIBERALIZATION OF
THE ECONOMY. IT MIGHT NOT BE TOO FAR FETCHED TO ARGUE

THAT PRESIDENT ASSAD WOULD HAVE LESS NEED FOR THE BAATH
IN THE EVENT OF PEACE AND COULD AFFORD TO PRESSURE FOR
MORE ECONOMIC LIBERALIZATION. CERTAINLY, THE BAATH IN

SYRIA IS IN LARGE PART A RESULT OF THE ARAB-ISRAELI
CONFLICT BUT NOT EXCLUSIVELY SO. ARAB NATIONALISM WAS
NOT CREATED BY THE ARAB-ISRAELI PROBLEM. THE ISRAELI
THREAT WOULD NO LONGER BE A JUSTIFICATION FOR REPRESSION
BUT WOULD THE IRAQI OR TURKISH THREAT SUFFICE?
REPRESSIVE GOVERNMENTS DRIVE IN COUNTRIES WHICH DO NOT
HAVE A SERIOUS EXTERNAL THREAT. PERHAPS SOVIET PROBLEMS IN
RECONCILING THEIR COMMITMENTS TO SYRIA AND IRAQ WOULD
STRENGTHEN THE HAND OF THOSE WHO OPPOSE LEFTIST POLICIES.
IT IS ALL VERY MURKEY AND CERTAINLY NOT A GOOD ARGUMENT TO USE
TO ENCOURAGE A LEFTIST GOVERNMENT TO JOIN THE PEACE PROCESS.
AS A FINAL NOTE, THOUGH IT DOES NOT REALLY RELATE TO THE
ECONOMIC ANALYSIS, THE SYRIANS HAVE AN IRRATIONAL FEAR
OF ISRAELI ECONOMIC IMPERIALISM WHICH COMPELS THEM TO
SUSPECT ANY HINT OF MOVING TOWARD THE CONDITIONS OF
REAL PEACE BETWEEN SYRIA AND ISRAEL.

8. CONCLUSION: THE GREATEST BENEFIT TO SYRIA WOULD
BE A COMBINATION OF LIBERALIZED ECONOMIC POLICIES AND
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AN ARAB-ISRAELI PEACE SETTLEMENT. THIS WOULD CAUSE AN
IMMEDIATE AND DRAMATIC IMPROVEMENT IN FOREIGN INVESTMENT
AND TOURISM. GIVEN THE ECONOMIC, GEOGRAPHIC, MATERIAL,
AND HUMAN RESOURCES OF SYRIA, THEIR PROPER HARNESSING
WOULD GIVE SYRIA THE ECONOMIC WHEREWITHAL TO PROSPER
AND TO MAINTAIN FROM ITS OWN RESOURCES A VIABLE MILITARY
STRENGTH AGAINST TURKEY AND IRAQ. REGARDLESS OF THE
REALITIES OF THE ECONOMIC ASPECTS OF PEACE, VIRTUALLY
ALL SYRIANS INCLUDING THOSE IN POWER HAVE TALKED THEMSELVES
INTO BELIEVING THAT PEACE WILL HAVE A POSITIVE IMPACT
ON SYRIA'S ECONOMY. WE CAN USE THESE ARGUMENTS AS LONG
AS THE SYRIANS DO NOT RPT NOT EXAMINE TOO CLOSELY
THE PROBABILITY THAT THESE BENEFITS WILL MATERIALIZE.
MURPHY

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